BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

Section

7.01 Purpose

The purpose of this clause is to establish procedures that allow Bay State Gas Company ("Bay State" or the "Company") subject to the jurisdiction of the Department of Public Utilities ("Department") to adjust, on a semiannual basis, its rates for firm gas sales and firm transportation service in order to recover DSM costs, environmental response costs, FERC Order 636 transition costs, return the interruptible transportation margins allocated to distribution services, recover third party legal, consulting, printing, postage and meeting room rental expenses related to Customer Choice initiatives and unbundling costs associated with the Company's participation in the Massachusetts Gas Unbundling Collaborative ("MGUC"), reflect changes in exogenous factors during the fiscal years 1997 and 1998, return a specific amount of revenues associated with earnings in excess of that level of earnings that resulted in a return on equity ("ROE") of 11.4%, ~~and~~ compensate firm rate payers for failure to meet certain quality of service measure and recover the reduction in Residential Assistance revenues, as outlined in D.T.E. 01-106-C.

Issued: October 27~~3~~, 2005~~0~~ Effective: November1, 2005~~0~~

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

7.02 Applicability

This Local Distribution Adjustment Clause ("LDAC") shall be applicable to all of Bay State's firm sales and firm transportation customers. The application of the clause may, for good cause shown, be modified by the Department. See Section 7.16, "Other Rules."

7.03 Demand Side Management Costs Allowable for LDAC

7.03.01 Purpose

The purpose of this provision is to establish a procedure that allows Bay State subject to the jurisdiction of the Department to adjust, on an annual basis, the Conservation Charge applicable to firm gas sales and firm transportation throughput in order to recover from firm ratepayers Conservation and Load Management program costs and associated expenditures.

7.03.02 Applicability

A Conservation Charge ("CC") shall be applied to Firm Therm Sales and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 7.03 of this clause. Such CC shall be determined annually by the Company separately for each Rate Category defined below, subject to review and approval by the Department as provided for in this clause.

For purposes of applying the respective CC each "Rate Category" shall be as follows:

Residential Non Heating	(Rates R-1, R-2, TR-1, TR-2)
Residential Heating	(Rates R-3, R-4, TR-3, TR-4)
Commercial/Industrial	(Rates G-40, G-41, G-42, G-43, G-50, G-51, G-52, G-53, T-40, T-41, T-42, T-43, T-50, T-51, T-52, T-53, TP-40, TP-50)

7.03.03 Costs Allowable for LDAC

All costs associated with Demand Side Management ("DSM") or Conservation and Load Management ("C&LM") programs which have been pre-approved by the Department pursuant to such orders as it may issue and its regulations as in effect from time to time. The allowable DSM costs shall also include the

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

credit of Category Loan Repayments plus projected interest plus any prior period Category Reconciling Adjustments. Other charges allowable for the Conservation Charge include Development Annualization costs, Performance Incentive Charges and Lost Net Revenues.

7.03.04 Effective Date of Conservation Charge

Forty-five ("45") days prior to the beginning of the billing month of November of each year, the Company will file with the Department for its consideration and approval, the Company's request for a change in the CC applicable to each Rate Category during the next subsequent twelve-month period commencing with the billing month of November.

7.03.05 Definitions

(1) Category Conservation Expenditures shall mean those expenses properly assignable or allocable to a Rate Category and incurred by the Company in furtherance of Conservation and Load Management programs which have been pre-approved by the Department pursuant to such orders as it may issue and its regulations as in effect from time to time.

(2) Category Loan Repayments shall mean those repayments of conservation loans properly assigned to a Rate Category.

(3) Category Reconciliation Adjustment shall mean the dollar amount, whether positive or negative, required to reconcile any difference between the sum of Category Loan Repayments plus the revenues collected from customers pursuant to this rate schedule with respect to a given Rate Category during a given period of time and the Category Conservation Expenditures incurred by the Company relative to such Rate Category during such period of time.

(4) Category Sales shall mean the respective sales applicable to each Rate Category.

(5) Development Period Cost shall mean all costs related to developing the C&LM programs. The Company will amortize its C&LM program development costs, with interest, over five years. The development costs amortized in a particular year will be recovered, with interest, from all ratepayers at the same rate per therm.

(6) Interest shall mean the consideration of the time value of money. Interest expense or credit shall be calculated for each separate cost

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

recovery account as the average of the beginning and end of month balances in the account times the monthly interest rate. The monthly interest rate, for the "Development Period Costs" shall be determined by dividing the pre-tax return on rate base in effect for that month as approved by the Department in the Company's most recent rate case by 365 days, and multiplying the resulting quotient by the number of days in the month, while the interest rate for all other DSM costs shall be determined by dividing the monthly Bank of Boston prime interest rate by 365 days and multiplying the resulting quotient by the number of days in the month.

(7) Lost Net Revenues shall mean the net lost margins resulting from the reduction in sales attributed to the implementation of the C&LM programs. These lost margins will be calculated based on actual measured savings adjusted for cost reductions resulting from the deferral or cancellation of distribution system upgrades. The Company will recover lost revenues, with interest, at an equal rate from all customers.

(8) Performance Incentive shall mean seven percent of the net benefit produced from the Company's C&LM programs. The Company will calculate the incentive based on measured savings after two years of program implementation, and collect the incentive from customers in all Rate Categories at an equal rate per therm. The calculation of the Performance Incentive, with interest, will be implemented subsequent to the Company's achievement of fifty percent of its pre-approval period savings target upon the Department approval.

7.03.06 Calculation of Conservation Charge

The Conservation Expenditure Charge component of the Conservation Charge shall be calculated, by Rate Category, by dividing the forecast DSM Allowable Costs by the sum of the forecast Category Sales and firm transportation throughput. The annual Development Amortization Charge component of the CC will be calculated based on each year's amortized balance, plus interest, divided by projected total firm sales and firm transportation throughput subject to the Conservation Charge. The Performance Incentive Charge component of the CC will be calculated by dividing the performance incentive dollar amount, plus interest, by the forecast total firm sales and firm transportation throughput. The Lost Net Revenues Charge component of the CC will be calculated by dividing lost net revenue dollar amount, plus interest, by the forecast category Sales and firm

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

transportation throughput. The sum of the Conservation Expenditure Charge, Developmental Charge, Performance Incentive Charge and the Lost Net Revenues Charge will be the total Conservation Charge per therm. The resulting CC shall be calculated for each twelve-month period beginning November 1 and reflected in the Local Distribution Adjustment Factor ("LDAF") that is applicable to actual Category Sales and firm transportation throughput.

7.03.07 Reconciliation Adjustments

Account 176.5 contains the accumulated difference between the sum of the Category Conservation Expenditures incurred by the Company during a given period of time and the sum of Category Loan Repayments and revenues collected from customers during such period of time, pursuant to this clause, with respect to a given Rate Category.

7.03.08 Application of CC to Bills

The CCs ($ per therm) for each Rate Category shall be calculated to the nearest one one-hundredth of a cent per therm and will be applied to the monthly firm sales and firm transportation throughput for each customer in a Rate Category.

7.03.09 Information Required to be Filed with the Department

The Company shall submit semiannual reports to the Department setting forth Category Conservation Expenditures, Category Loan Repayments, Category Sales and Firm Transportation Quantities and revenues under Section 7.03 of this clause, both as actually experienced and as estimated for the remaining forecast period. Such reports shall be filed with the Department on or before the last day of the first month after the close of each Peak Period and Off-Peak Period, respectively, as defined in the Company's Cost of Gas Adjustment Clause.

7.03.10 Other Rules

Whenever the Company determines that actual experience or updated estimates affecting the components of the calculated Conservation Charge

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

indicate a difference of ten percent over or under the amount the Department has authorized to be collected during the period, the Company may make an interim filing during the effective period revising the Conservation Charge either up or down for the remainder of the period with the approval of the Department. An amended Conservation Charge must be submitted 10 days before the first billing cycle of the month in which it is to take effect.

7.04 Environmental Response Costs Allowable for LDAC

7.04.01 Purpose

The purpose of this provision is to establish a procedure that allows Bay State subject to the jurisdiction of the Department to adjust, on an annual basis, its rates for the recovery from its firm sales and firm transportation customers environmental response costs associated with manufactured gas plants.

7.04.02 Applicability

A Remediation Adjustment Cost ("RAC") charge shall be applied to firm sales and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 7.04 of this clause. Such RAC shall be determined annually by the Company as defined below, subject to review and approval by the Department as provided for in this clause.

7.04.03 Environmental Cost Allowable

All environmental response costs associated with manufactured gas plants, adjusted for deferred tax benefits, and one half of the expenses incurred by the Company in pursuing insurance and third party claims, less one-half of any recoveries received by the Company as a result of such claims may be included in the LDAC.

The total annual charge to the Company's ratepayers for Environmental Response Costs during any Remediation Cost Recovery Year shall not exceed five percent (5%) of the Company's total revenues from firm gas sales during the preceding calendar year. If this limitation results in the Company recovering less than the amount that would otherwise be recovered in a

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

particular Remediation Cost Recovery Year, then beginning with the date upon which the annual charge would have been effective, carrying costs shall accrue to the Company upon the unrecovered portion of the Remediation costs that otherwise would have been allowable. Carrying costs shall accrue through the Remediation Cost Recovery Year in which such amount, together with any accumulated carrying costs, is actually recovered by the Company from its ratepayers and shall accrue at the pre-tax weighted cost of capital rate as defined in Section 7.04.05.

7.04.04 Effective Date

Forty-five ("45") days prior to the beginning of the billing month of May of each year, the Company will file with the Department for its consideration and approval, the Company's request for a change in the RAC applicable to all firm sales and firm transportation throughput for the subsequent twelve month period commencing with the billing month of May.

7.04.05 Definitions

(1) Deferred Tax Benefit shall be the unamortized portion of actual environmental response costs multiplied by the Company's effective statutory federal and state income tax rate, and by the Company's tax adjusted cost of capital as approved in its last rate proceeding.

(2) Environmental Response Costs shall include all costs of investigation, testing, remediation, litigation expenses, and other liabilities relating to manufactured gas plant sites, disposal sites, or other sites onto which material may have migrated, as a result of the operating or decommissioning of Massachusetts gas manufacturing facilities.

(3) Expenses and Recoveries Associated with Insurance and Third-Party Expenses and Recoveries shall include one-half the expenses incurred by the Company in pursuing insurance and third-party claims and one-half of any recoveries or other benefits received by the Company as a result of such claims.

(4) Pre-tax Weighted Cost of Capital is the result of the calculation of the weighted cost of capital minus the weighted cost of debt, divided by one minus the combined tax rate, plus the weighted cost of debt.

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

7.04.06 Reconciliation Adjustments

Calculation of the RAC

The RAC consists of one-seventh of the actual response costs incurred by the Company in a calendar year for each year until fully amortized, less a deferred tax benefit, plus one-half of insurance and third-party expenses for the calendar year, less one-half of insurance and third-party recoveries for the calendar year, plus the prior year's RAC reconciliation adjustment. This amount is then divided by the Company's forecast of total firm sales volumes and firm transportation throughput for the upcoming year.

The deferred tax benefit is calculated by multiplying the unamortized environmental response costs by the combined tax rate as defined in Section 7.04.5, and by the Company's pre-tax weighted cost of capital as defined in Section 7.04.5.

7.04.07 Remediation Adjustment Cost (RAC) Factor Formula

$$RAC = \frac{\text{sum}\left(\frac{ERC}{7}\right) - DTB + ((IE - IR) \times .5) + Rrac}{A:TP\ vol}.$$

and:

$$DTB = UERC \times TR \times \left(\frac{(WCC - WCD)}{(1 - TR)} + WCD \right)$$

<u>Where</u>:

A:TPool	Forecast Annual throughput Volumes inclusive of all firm sales and firm transportation throughput.
DL	Number of Days Lag from the purchase of gas from suppliers to the payment by customers
DTB	Deferred Tax Benefit as defined in Section 7.04.05.

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

ERC	Environmental Response Costs as defined in Section 7.04.05.
IE	Expenses associated with pursuing Insurance and third-party claims as defined in Section 7.04.
IR	Insurance and third-party Recoveries as defined in Section 7.04.
RAC	Remediation Adjustment Factor as defined in Section 7.04.08
Rrac	Remediation Adjustment Clause Reconciliation Adjustment - Account 176.6 balance as outlined in Section 7.04.08.
TR	Combined Tax Rate
UERC	Unamortized Environmental Response Costs
WCC	Weighted Cost of Capital
WCD	Weighted Cost of Debt

7.04.08 Remediation Adjustment Cost (RAC) Factor Calculation

(1) The following definitions pertain to the Remediation Adjustment Clause (RAC) reconciliation adjustment calculations:

(a) Remediation Adjustment Cost Expenses Allowable Per Formula shall be:

i. One seventh of each calendar year's environmental response costs (ERC) as defined in Section 7.04.03, less the deferred tax benefit as defined in Section 7.04.05.

ii. One-half of insurance and third-party expenses (IE), less one-half of insurance and third-party recoveries (IR).

(b) RAC (Remediation Adjustment Cost) portion of the LDAF as computed in Section 7.04.07 is used as the convention for recognizing revenues toward Environmental Response Costs.

(2) Calculation of the Reconciliation Adjustment 176.6
Account 176.6 shall contain the accumulated difference between revenues toward environmental response costs as calculated by multiplying the RAC times monthly firm sales volumes and transportation throughput and environmental response costs allowable per formula.

7.04.09 Application of RAC to Bills

The RAC ($ per therm) shall be calculated to the nearest one one-hundredth of a cent per therm and will be applied to the monthly firm sales and firm

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

transportation throughput.

7.04.10 Information to be Filed with the Department

The annual RAC filing will include copies of all bills and receipts relating to any environmental response costs and expenses related to insurance and third-party recoveries incurred in the preceding calendar year as well as a schedule depicting the particular purpose of the amount of any environmental response costs and expenses related to insurance and third party recoveries incurred in the preceding calendar year.

7.05 FERC Order 636 Transition Costs Allowable for LDAC

7.05.01 Purpose

The purpose of this provision is to establish a procedure that allows Bay State subject to the jurisdiction of the Department to adjust, on an annual basis, its rates for the recovery from its firm sales and transportation customers FERC Order 636 Transition Costs.

7.05.02 Applicability

The FERC Order 636 Transition Cost charge (TC) shall be applied to all firm sales and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 7.05 of this clause. Such TC shall be determined annually by the Company as defined below, subject to review and approval by the Department as provided for in this clause.

7.05.03 Transition Cost Allowable for LDAC

All costs as defined and approved by the FERC, including: (1) gas supply realignment or GSR costs; (2) stranded costs; and (3) new facilities costs.

7.05.04 Effective Date of Transition Cost Charge

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

Prior to the beginning of the billing month of May of each year, the Company will file with the Department for its consideration and approval, the Company's request for a change in the TC applicable to all firm sales and firm transportation throughput for the subsequent twelve month period commencing with the billing month of May.

7.05.05 Definitions

(1) Number of Days Lag is the number of days lag to calculate the purchased gas working capital requirement as defined in the Company's most recent rate case.

(2) Tax Rate is the combined state and federal income tax rate.

(3) Transition Costs are costs incurred by pipelines as a result of the restructuring of their operations and services in compliance with FERC Order 636 as defined by FERC including: (1) gas supply realignment or GSR costs; (2) stranded costs, and, (3) new facilities costs.

(4) Weighted Cost of Capital is the weighted cost of capital as set in the Company's most recent rate case.

(5) Weighted Cost of Debt is the weighted cost of debt as set in the Company's most recent rate case.

7.05.06 Transition Cost (TC) Factor Formula

$$TCF = \frac{TC + RA_{TC}}{A:Tpvol} + WCF_{TC}$$

and:

$$WCF_{tc} = \frac{\frac{(WCA_{tc} \times WCC) - (WCA_{tc} \times WCD)}{1 - TR} + WCA_{tc} \times WCD) + WCR_{tc}}{A : TPvol}$$

and:

$$WCA_{tc} = TC \times \left(\frac{DL}{365}\right)$$

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

Where:

$A:TP_{VOL}$	Forecast Annual Throughput Volumes inclusive of all firm sales and firm transportation throughput.
DL	Number of Days Lag from the purchase of gas from suppliers to the payment by customers
TC	Transition Costs as defined in Section 7.05.05.
RA_{TC}	Transition Cost Reconciliation Adjustment - Account 175.15, inclusive of the associated Account 175.15 interest, as outlined in Section 7.05.08.
WCA_{TC}	Working Capital Transition Costs Allowable for working capital application as defined in Section 7.05.07.
WCC	Weighted Cost of Capital
WCD	Weighted Cost of Debt
WCF_{TC}	Per Unit Working Capital Factor allowable per billed annual throughput volume as defined in Section 7.05.07.
WCR_{TC}	Working Capital Reconciliation adjustment associated with transition cost charges - Account 176.15

7.05.07 Transition Cost Working Capital Allowance

(1) TC Working Capital Allowance Calculation

The transition cost working capital allowance shall be calculated as follows: First, Transition Cost Working Capital Requirement is multiplied by the Weighted Cost of Capital Rate to arrive at a Return on Transition Cost Working Capital Requirement. Next, the Interest Portion of the Return on Transition Cost Working Capital is calculated by multiplying the Transition Cost Working Capital Requirement amount by the Weighted Cost of Debt Rate. This amount is then subtracted from the Return on Transition Cost Working Capital to arrive at a Taxable Income Base. The Taxable Income Base is divided by the reciprocal of the combined effective federal and state tax rate to arrive at the Return Requirement Plus Taxes. The sum of the Return Requirement Plus Taxes and the interest Portion of the Return on Transition Cost Working Capital is the total Transition Cost Working Capital Allowance. This total divided by annual firm sales volumes and firm transportation throughput equals the per unit Working Capital Factor.

(2) TC Working Capital Formulas:

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

As set forth in Section 7.05.06.

(3) TC Working Capital Reconciliation Adjustment
Account 176.15 shall contain the accumulated difference between the revenues toward transition cost working capital allowance and the actual monthly transition working capital allowance costs as calculated from the actual transition costs.

7.05.08 Reconciliation Adjustments

Account 175.15 shall contain the accumulated difference between revenues toward transition costs as calculated by multiplying the transition cost factor (TCF) times monthly firm sales and transportation throughput and transition costs allowed, plus carrying charges calculated on the average monthly balance using the Fleet prime lending rate and then added to the end-of-month balance.

7.05.09 Application of TCF to Bills

The TCF ($ per therm) shall be calculated to the nearest one one-hundredth of a cent per therm and will be applied to the monthly firm sales and firm transportation throughput.

7.05.10 Information to be Filed with the Department

Information pertaining to the Transition Costs will be filed with the Department along with the gas cost information as required pursuant to the CGAC and LDAC. Required filings include a monthly report providing actual data and resulting updated projection of the end-of-period reconciliation balance, as well as the seasonal calculation of the Transition Cost factor, which shall be included in a semiannual LDAF filing. Also, the seasonal Transition cost reconciliation balances shall be filed along with the other reconciliation balances included in the LDAC.

7.06 Interruptible Transportation Margins Allowable for LDAC

7.06.01 Purpose

The purpose of this provision is to establish a procedure that allows Bay State subject to the jurisdiction of the Department to adjust, on a seasonal basis, the Interruptible Transportation Margin credit (ITM) applicable to firm gas sales and firm transportation throughput in order to return to firm ratepayers the Interruptible Transportation margins allocated to the local distribution function.

7.06.02 Applicability

An Interruptible Transportation Margin Credit (ITMC) shall be applied to all firm sales and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 7.06 of this clause. Such ITMC shall be determined seasonally by the Company as defined below, subject to review and approval by the Department as provided for in this clause.

The application of this provision may, for good cause shown, be modified by the Department. See Section 7.16, "Other Rules."

7.06.03 Effective Date of Interruptible Transportation Margin

The peak ITMC shall become effective as of the first billing cycle of each peak period as designated by the Company. The off-peak ITMC shall become effective as of the first billing cycle of each off-peak period as designated by the Company.

7.06.04 Definitions

(1) Peak Period for Bay State is the six consecutive months of November through April.
(2) Off-Peak Period for Bay State is the six consecutive months of May through October.

7.06.05 Interruptible Transportation Margins

A threshold level of margins will be established annually for Interruptible Transportation Margins. Such level of margins shall be adjusted to reflect additions or losses from Customers who switch from FT, FS or IS, to IT, and conversely, from IT to FT, FS or IS. 100% of margins earned up to the threshold level plus 75% of margins earned in excess of the threshold will be passed back to the firm sales and firm transportation customers as a credit contained in the LDAC. The Company shall adjust the threshold annually to reflect a new level of IT margins for the twelve-month period ending April 30 of each year.

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

The ITMC shall be computed semiannually based on a forecast of interruptible transportation margins and firm sales and firm transportation throughput volumes. Forecasted margins up to 100% of the threshold level plus 75% of the forecasted margins above the threshold level are allocated to the peak period and off-peak period using the distribution capacity allocator from the Company's Cost of Service Study filed in its last rate case.

Peak ITM Credit Formula

The Peak ITM Credit shall be calculated according to the following formulas:

$$ITMC_p = \frac{ITM_p}{P{:}TPvol} + RF_{PITM}$$

and:

$$RF_{PITM} = \frac{R_{PITM}}{P{:}TP_{vol}}$$

Where:

$ITMC_p$	Peak period Interruptible Transportation Margin Credit.
ITM_p	Interruptible Transportation margins allocated to peak period
RF_{PITM}	Peak Interruptible Transportation margin reconciliation adjustment factor applicable to total firm sales and firm transportation throughput.
R_{PITM}	Reconciliation costs - peak interruptible transportation margins, Account 175.5 balance, inclusive of the associated Account 175.5 interest.
$P : TP_{vol}$	Forecast peak period firm sales and firm transportation throughput.

Off-Peak ITM Credit Formula

The Off-Peak ITM Credit shall be calculated according to the following formulas:

$$ITMC_{op} = \frac{ITM_{op}}{OP{:}TPvol} + RF_{OPITM}$$

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

and:

$$RF_{OPITM} = \frac{R_{OPITM}}{OP:TP_{vol}}$$

Where:

$ITMC_{op}$	Off-peak period Interruptible Transportation Margin Credit.
ITM_{op}	Interruptible Transportation margins allocated to off-peak period
RF_{OPITM}	Off-peak Interruptible Transportation margin reconciliation adjustment factor applicable to total firm sales and firm transportation throughput.
R_{OPITM}	Reconciliation costs - Off-peak Interruptible transportation margins, Account 175.6 balance, inclusive of the associated Account 175.6 interest.
$OP : TP_{vol}$	Forecast off-peak period firm sales and firm transportation throughput.

7.06.06 Reconciliation Adjustments

Peak ITM

Account 175.5 shall contain the accumulated difference between peak period, interruptible transportation margins returned toward the local distribution function, as calculated by multiplying the interruptible transportation margin credit (ITMC) times (monthly firm sales and firm transportation throughput) during the peak period, and the actual margins allocated to the peak period.

Off-Peak ITM

Account 175.6 shall contain the accumulated difference between off-peak interruptible transportation margins returned toward the local distribution function as calculated by multiplying the interruptible transportation margin credit (ITMC) times (monthly firm sales plus firm transportation throughput) during the off-peak period and the actual margins allocated to the off-peak period.

See Section 7.06.05 for Reconciliation formulas.

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

7.06.07 Application of ITM to Bills

The ITMC ($ per therm) shall be calculated to the nearest one one-hundredth of a cent per therm by period and will be applied to the monthly firm sales and firm transportation throughput.

7.06.08 Information to be Filed with the Department

Information pertaining to the Interruptible Transportation Margins will be filed with the Department along with the gas cost information as required pursuant to the LDAC and CGAC. Required filings include a monthly report providing actual data and resulting updated projection of the end-of-period reconciliation balance, as well as the seasonal calculation of the ITM credit, which shall be included in a semiannual LDAF filing. Also, the seasonal ITM reconciliation balances shall be filed along with the other reconciliation balances included in the LDAC.

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

7.07 Third Party Expenses Related to Customer Choice Initiatives Pursuant to the Company's Two Year Rate Plan and all Unbundling Expenses Associated with Participation in the MGUC

7.07.01 Purpose

The purpose of this provision is to establish a procedure that allows Bay State subject to the jurisdiction of the Department to adjust, on an annual basis, beginning November 1, 1997, its rates for the recovery of incremental third party expenses to conduct the communications and evaluation efforts associated with the Company's first year residential pilot program, Pioneer Valley Customer Choice ("PVCC"), and second year pilot program, Choice Advantage. Additionally, this provision allows Bay State, beginning November 1, 1999, to adjust, on an annual basis, its rates for the recovery of incremental third party expenses associated with its customer choice initiatives (except for communications and evaluation costs for the PVCC and Choice Advantage programs). Further, this provision allows Bay State to adjust, on an annual basis, its rates for the recovery of all unbundling costs associated with the Company's participation in the MGUC, as defined in Section 7.07.05(2).

7.07.02 Applicability

The Customer Choice Third Party Expenses (CCE) shall be applied to all firm sales volumes and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 7.07 of this clause. The CCE shall be determined annually by the Company as defined below, subject to review and approval by the Department as provided for in this clause.

7.07.03 Customer Choice Expenses Allowable for LDAC

(1) Incremental third party expenses related to conducting the communications and evaluation efforts associated with the Company's first year residential pilot program, Pioneer Valley Customer Choice ("PVCC"), and second year pilot program, Choice Advantage; recovery of such expenses were approved by the Department in D.P.U. 95-104-A. These costs are to be recovered over a two year period of November 1, 1997 through

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

October 31, 1999.

(2) Third party costs associated with its customer choice initiatives (except for communications and evaluation costs for the PVCC and Choice Advantage programs) and pertaining specifically to legal, consulting, printing, postage and meeting room rentals. These costs shall be recovered beginning November 1, 1999 and shall not exceed $800,000 per year for the years ending September 30, 1997 and 1998 and $150,000 for a portion of the Company's costs associated with developing and securing approval of its two year rate plan, except the recovery of costs in any one year shall not exceed the annual recovery of costs associated with the first year of the pilot (PVCC) program. Amounts in excess of this cap will be recovered in subsequent years.

(3) All unbundling costs associated with the Company's participation in the MGUC.

7.07.04 Effective Date of Customer Choice Expense Charge

Prior to the beginning of the billing month of November of each year, the Company will file with the Department for its consideration and approval, the Company's request for a change in the CCE applicable to all firm sales volumes and firm transportation throughput for the subsequent twelve month period commencing with the billing month of November.

7.07.05 Definition

(1) **Customer Choice Initiatives** are activities facilitating the development, design and implementation of unbundled services for all customers.

(2) **Unbundling Costs** are all costs associated with the Company's participation in the MGUC, including, but not limited to, any legal, consulting, materials, customer education/advertising, and facilities expenses as approved by the Department.

7.07.06 Customer Choice Expense (CCE) Factor Formula

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

$$CCEF = \frac{CCE + RAcce}{A{:}\ TPvol}$$

Where:

A:TPvol Forecast Annual Throughput Volumes of all firm sales and firm transportation throughput.
CCE Customer Choice Expenses as defined in Section 7.07.05.
RA_{CCE} Customer Choice Expense Reconciliation Adjustment - Account 175.7, inclusive of the associated Account 175.7 interest, as outlined in Section 7.07.07.

7.07.07 Reconciliation Adjustments

Account 175.7 shall contain the accumulated difference between revenues toward Customer Choice Expenses as calculated by multiplying the Customer Choice Expense Factor (CCEF) times monthly firm sales and transportation throughput and Customer Choice expenses allowed, plus carrying charges calculated on the average monthly balance using the Fleet prime lending rate and then added to the end-of-month balance.

7.07.08 Application of CCEF to Bills

The CCEF ($ per therm) shall be calculated to the nearest one one-hundredth of a cent per therm and will be applied to the monthly firm sales and firm transportation throughput.

7.07.09 Information to be Filed with the Department

Information pertaining to the Customer Choice Expenses will be filed with the Department consistent with the filing requirements of all costs and revenue information included in the LDAC. Required filings include the semiannual CCEF filings made forty-five (45) days prior to the effective dates of the November 1 peak period and May 1 off-peak period and will include all other factors of the LDAF. The off-peak filing will represent a revision to the annual CCEF to become effective May 1 reflecting the latest known actual balance and updated throughput forecast for the upcoming off-peak period. The peak period CCEF filing will contain the calculation of the new annual CCEF to become effective November 1 and will include the updated annual Customer Choice Expense reconciliation balance. The factors and reconciliation balances of all other LDAC components will be included in this filing. Further,

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

the reconciliation balances of the CCE, as well as the other balances included in the LDAC, will be filed thirty (30) days prior to the filing dates of the seasonal LDAFs, which is seventy-five (75) days prior to the effective dates.

7.08 Costs from Changes in Exogenous Factors Pursuant to the Company's Two Year Rate Plan

7.08.01 Purpose

The purpose of this provision is to establish a procedure that allows Bay State subject to the jurisdiction of the Department to adjust, on an annual basis, beginning December 1, 1997, its rates to reflect the annualized known and measurable cost impacts from changes in exogenous factors pursuant to the Company's two year Rate Plan.

7.08.02 Applicability

The Exogenous Factor Costs (EFC) shall be applied to all firm sales volumes and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 7.08 of this clause. The EFC shall be determined annually by the Company as defined below, subject to review and approval by the Department as provided for in this clause.

7.08.03 Costs from Changes in Exogenous Factors Allowable for LDAC

Annualized cost impacts from changes in exogenous factors that take effect during the year ended September 30, 1997 for recovery effective December 1, 1997 and during the year ended September 30, 1998 for recovery effective November 1, 1998. Costs, either positive or negative, must be known and measurable, beyond the Company's control and result from:

- changes in tax laws that uniquely affect the regulated local gas distribution industry
- accounting changes unique to the local gas distribution industry; and
- regulatory, judicial, or legislative changes uniquely affecting the local gas distribution industry.

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

7.08.04 Effective Date of Exogenous Factors Cost Charge

Prior to the beginning of the billing month of November of each year, the Company will file with the Department for its consideration and approval, the Company's request for a change in the EFC applicable to all firm sales volumes and firm transportation throughput for the subsequent twelve month period commencing with the billing month of November.

7.08.05 Exogenous Factors Cost (EFC) Factor Formula

$$EFCF = \frac{EFC + RAefc}{A{:}\ TPvol}$$

Where:

A:TPvol Forecast Annual Throughput Volumes of all firm sales and firm transportation throughput.

EFC Exogenous Factors Cost as described in Section 7.08.03.

RA_{EFC} Exogenous Factors Cost Reconciliation Adjustment - Account 175.8, inclusive of the associated Account 175.8 interest, as outlined in Section 7.08.06.

7.08.06 Reconciliation Adjustments

Account 175.8 shall contain the accumulated difference between revenues toward Exogenous Factors Costs as calculated by multiplying the Exogenous Factors Cost Factor (EFCF) times monthly firm sales and transportation throughput and Exogenous Factors costs allowed, plus carrying charges calculated on the average monthly balance using the Fleet prime lending rate and then added to the end-of-month balance.

7.08.07 Application of EFCF to Bills

The EFCF ($ per therm) shall be calculated to the nearest one one-hundredth of a cent per therm and will be applied to the monthly firm sales and firm transportation throughput.

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

7.08.08 Information to be Filed with the Department

Information pertaining to the Exogenous Factors Costs will be filed with the Department consistent with the filing requirements of all costs and revenue information included in the LDAC. Required filings include the semiannual EFCF filings made forty-five (45) days prior to the effective dates of the November 1 peak period and May 1 off-peak period and will include all other factors of the LDAF. The off-peak filing will represent a revision to the annual EFCF to become effective May 1 reflecting the latest known actual balance and updated throughput forecast for the upcoming off-peak period. The peak period EFCF filing will contain the calculation of the new annual EFCF to become effective November 1 and will include the updated annual Exogenous Factors Cost reconciliation balance. The factors and reconciliation balances of all other LDAC components will be included in this filing. Further, the reconciliation balances of the EFC, as well as the other balances included in the LDAC, will be filed thirty (30) days prior to the filing dates of the seasonal LDAFs which is seventy-five (75) days prior to the effective dates.

7.09 Earnings Sharing Revenue Pursuant to the Company's Two Year Rate Plan

7.09.01 Purpose

The purpose of this provision is to establish a mechanism for Bay State, subject to the jurisdiction of the Department, to adjust, on an annual basis, beginning December 1, 1997, its rates to reflect the sharing of revenues associated with earnings in excess of that level of earnings that resulted in a Return on Equity (ROE) of 11.4%. This revenue sharing provision is pursuant to the Company's two year Rate Plan.

7.09.02 Applicability

The Earnings Sharing Revenues (ESR) shall be applied to all firm sales volumes and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 7.09 of this clause. The ESR shall be determined

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

annually by the Company as defined below, subject to review and approval by the Department as provided for in this clause.

7.09.03 Earnings Sharing Revenues Allowable for LDAC

The earnings sharing revenues between the Company's shareholders and firm customers will be determined based on the Company's weather normalized ROE which will be measured for the period ending September 30, 1997 and September 30, 1998. Any sharing based on the twelve months ended September 30, 1997 period will be reflected in the LDAC effective December 1, 1997 through October 31, 1998. Similarly, any sharing of excess revenues based on the Company's ROE for the period ending September 30, 1998 will be reflected in the LDAC for the one year period beginning November 1, 1998. Adjustments for earnings sharing will be made as follows:

1) if ROE is less than or equal to 11.4%, no revenues will be returned;
2) if ROE is greater than 11.4% and less than or equal to 15,4%, revenues will be returned through the LDAC so that, based on the measured year's performance, shareholders would have received 50% of the earnings in excess of that level or earnings that resulted in an ROE of 11.4% and firm customers would have received the other 50%; and
3) if ROE exceeds 15.4%, in addition to adjustment 2) above, revenues will be returned through the LDAC so that, based on the measured year's performance, customers would have received all of the earnings in excess of that level of earnings that resulted in an ROE of 15.4%.

Further, if the Company's service quality in fiscal year 1998 deteriorates such that, absent the penalty cap, it would have been assessed double the maximum service quality penalty of $250,000, then any earnings shared for fiscal year 1997 will be restated as follows and the ESRF will be adjusted accordingly to return the incremental differences for effect November 1, 1998.

- if ROE exceeds 11.4%, revenues will be returned through the LDAC so that, based on the measured year's performance, firm customers would have received all of the earnings in excess of that level of earnings that resulted in an ROE of 11.4%.

A corresponding adjustment will be made for effect November 1, 1999, if the Company's service quality for fiscal year 1999 similarly deteriorates.

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

7.09.04 Effective Date of Earnings Sharing Revenue Credit

Prior to the beginning of the billing month of November of each year, the Company will file with the Department for its consideration and approval, the Company's request for a change in the ESR applicable to all firm sales volumes and firm transportation throughput for the subsequent twelve month period commencing with the billing month of November.

7.09.05 Earnings Sharing Revenues (ESR) Factor Formula

$$ESRF = \frac{ESR + RAeer}{A{:}\ TPvol}$$

Where:

A:TPvol Forecast Annual Throughput Volumes of all firm sales and firm transportation throughput.

ESR Revenues associated with earnings sharing at levels described in Section 7.09.03.

RA_{EER} Earnings Sharing Revenues Reconciliation Adjustment - Account 175.9, inclusive of the associated Account 175.9 interest, as outlined in Section 7.09.06.

7.09.06 Reconciliation Adjustments

Account 175.9 shall contain the accumulated difference between the return of revenues toward Earnings Sharing Revenues as calculated by multiplying the Earnings Sharing Revenues Factor (ESRF) times monthly firm sales and transportation throughput and the revenues associated with Earnings Sharing allowed, plus carrying charges calculated on the average monthly balance using the Fleet prime lending rate and then added to the end-of-month balance.

7.09.07 Application of ESRF to Bills

The ESRF ($ per therm) shall be calculated to the nearest one one-hundredth of a cent per therm and will be applied to the monthly firm sales and firm transportation throughput.

7.09.08 Information to be Filed with the Department

Information pertaining to the Earnings Sharing Revenues will be filed with the Department consistent with the filing requirements of all costs and revenue information included in the LDAC. Required filings include the semiannual ESRF filings made forty-five (45) days prior to the effective dates of the November 1 peak period and May 1 off-peak period and will include all other factors of the LDAF. The off-peak filing will represent a revision to the annual ESRF to become effective May 1 reflecting the latest known actual balance and updated throughput forecast for the upcoming off-peak period. The peak period ESRF filing will contain the calculation of the new annual ESRF to become effective November 1 and will include the updated annual Earnings Sharing Revenues reconciliation balance. The factors and reconciliation balances of all other LDAC components will be included in this filing. Further, the reconciliation balances of the ESRF, as well as the other balances included in the LDAC, will be filed thirty (30) days prior to the filing dates of the seasonal LDAFs, which is seventy-five (75) days prior to the effective dates.

7.10 Quality of Service Revenue Reduction Pursuant to the Company's Two Year Rate Plan

7.10.01 Purpose

The purpose of this provision is to establish a mechanism for Bay State subject to the jurisdiction of the Department to adjust, on an annual basis, beginning November 1, 1998, its rates to reflect a reduction in its revenues for failure to meet certain quality of service measure targets. This revenue reduction provision is pursuant to the Company's two year Rate Plan.

7.10.02 Applicability

The Service Quality Revenue Reduction (SQRR) shall be applied to all firm sales volumes and firm transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 7.10 of this clause. The SQRR shall be determined annually by the Company as defined below, subject to review and approval by the Department as provided for in this clause.

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

7.10.03 Service Quality Revenue Reduction Allowable for LDAC

The reduction of revenues due to the Company's failure to meet certain service quality measure targets will be based on the evaluation results pertaining to the twelve month period of October 1, 1997 through September 30, 1998 and will be reflected in the LDAC for the subsequent twelve month period beginning November 1, 1998. Similarly, any reduction of revenues pertaining to failure to meet service quality measure targets for the twelve month period of October 1, 1998 through September 30, 1999 will be reflected in the LDAC for the one year period beginning November 1, 1999. The eight service quality measures and related targets are set forth in Appendix I of the LDAC.

7.10.04 Effective Date of Service Quality Revenue Reduction

Prior to the beginning of the billing month of November of each year, the Company will file with the Department for its consideration and approval, the Company's request for a change in the SQRR applicable to all firm sales volumes and firm transportation throughput for the subsequent twelve month period commencing with the billing month of November.

7.10.05 Service Quality Revenue Reduction (SQRR) Factor Formula

$$SQRRF = \frac{SQRR + RAsqrr}{A{:}\ TPvol}$$

Where:

A:TPvol Forecast Annual Throughput Volumes of all firm sales and firm transportation throughput.

SQRR Revenue reduction associated with failure to meet service quality measure targets set forth in Appendix I of the LDAC and as described in Section 7.10.03.

RA_{SQRR} Service Quality Revenue Reduction Reconciliation Adjustment - Account 175.13, inclusive of the associated Account 175.15 interest, as outlined in Section 7.10.06.

7.10.06 Reconciliation Adjustments

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

Account 175.13 shall contain the accumulated difference between the return of revenues toward the Service Quality Revenue Reduction as calculated by multiplying the Service Quality Revenue Reduction Factor (SQRRF) times monthly firm sales and transportation throughput and the reduction in revenues associated with failure to meet service quality measures allowed, plus carrying charges calculated on the average monthly balance using the Fleet prime lending rate and then added to the end-of-month balance.

7.10.07 Application of SQRRF to Bills

The SQRRF ($ per therm) shall be calculated to the nearest one one-hundredth of a cent per therm and will be applied to the monthly firm sales and firm transportation throughput.

7.10.08 Information to be Filed with the Department

Information pertaining to the Service Quality Revenue Reduction will be filed with the Department consistent with the filing requirements of all costs and revenue information included in the LDAC. Required filings include the semiannual SQRRF filings made forty-five (45) days prior to the effective dates of the November 1 peak period and May 1 off-peak period and will include all other factors of the LDAF. The off-peak filing will represent a revision to the annual SQRRF to become effective May 1 reflecting the latest known actual balance and updated throughput forecast for the upcoming off-peak period. The peak period SQRRF filing will contain the calculation of the new annual SQRRF to become effective November 1 and will include the updated annual Service Quality Revenue Reduction reconciliation balance. The factors and reconciliation balances of all other LDAC components will be included in this filing. Further, the reconciliation balances of the SQRRF, as well as the other balances included in the LDAC, will be filed thirty (30) days prior to the filing dates of the seasonal LDAFs, which is seventy-five (75) days prior to the effective dates.

7.11 Effective Date of Local Distribution Adjustment Factor

The peak LDAF shall become effective as of the first billing cycle of each peak period as designated by the Company. The off-peak LDAF shall become effective as of the first billing cycle of each off-peak period as designated by the Company.

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

7.12 Definitions

(1) Peak Period for Bay State is the six consecutive months of November through April.
(2) Off-Peak Period for Bay State is the six consecutive months of May through October.

7.13 Local Distribution Adjustment Factor Formulas

The LDAF shall be calculated on a semiannual basis, by customer class, by summing up the various factors included in the LDAC.

Peak LDAF Formula

$LDAF_P^X = CC^X + RAC + TCF - ITMC_P + CCEF + EFCF - ESRF - SQRRF + RAAF$

Where:

CC^X	Annualized class specific Conservation Charge
$LDAF_P^X$	Peak period class specific Local Distribution Adjustment Factor
$ITMC_P$	Peak period Interruptible Transportation Margin Credit
RAC	Total firm Annualized Remediation Adjustment Charge
TCF	Total firm Annualized Transition Cost Factor
CCEF	Total firm Annualized Customer Choice Expense Factor
EFCF	Total firm Annualized Exogenous Factors Cost Factor
ESRF	Total firm Annualized Earnings Sharing Revenue Factor
SQRRF	Total firm Annualized Service Quality Revenue Reduction Factor
RAAF	Residential Assistance Adjustment Factor

Off-Peak LDAF Formula

$LDAF_{OP}^X = CC^X + RAC + TCF - ITMC_{OP} + CCEF + EFCF - ESRF - SQRRF + RAAF$

Where:

CC^X Annualized class specific Conservation Charge

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

$LDAF_{OP}^{X}$	Off-peak period class specific Local Distribution Adjustment Factor
$ITMC_{OP}$	Off-Peak period Interruptible Transportation Margin Credit
RAC	Total firm Annualized Remediation Adjustment Charge
TCF	Total firm Annualized Transition Cost Factor
CCEF	Total firm Annualized Customer Choice Expense Factor
EFCF	Total firm Annualized Exogenous Factors Cost Factor
ESRF	Total firm Annualized Earnings Sharing Revenue Factor
SQRRF	Total firm Annualized Service Quality Revenue Reduction Factor
RAAF	Residential Assistance Adjustment Factor

7.14 Application of LDAF to Bills

The LDAFs ($ per therm) for each Rate Category shall be calculated to the nearest one one-hundredth of a cent per therm and will be applied to the monthly firm sales and firm transportation throughput for each customer in a Rate Category.

7.15 Information Required to be Filed with the Department

Information pertaining to all the components of the Local Distribution Adjustment Factor is to be filed with the Department as specified in Sections 7.03.9, 7.04.10, 7.05.10, 7.06.8, 7.07.09, 7.08.10, 7.09.08, ~~and~~ 7.10.08 and 7.18.06.

7.16 Other Rules

(1) The Department may, where appropriate, on petition or on its own motion, grant an exception from the provisions of these regulations, upon such terms that it may determine to be in the public interest.
(2) The Company may, at any time, file with the Department an amended LDAC. An amended LDAC filing must be submitted 10 days before the first billing cycle of the month in which it is proposed to take effect.
(3) The Department may, at any time, require the Company to file an amended LDAC.
(4) The operation of the LDAC is subject to all powers of suspension and investigation vested in the Department by G.L. c.164.

7.17 Customer Notification

The Company will design a notice which explains in simple terms to customers the LDAF, the nature of any change in the LDAF and the manner in which the LDAF is applied to the bill. This notice can be a part of the Company's GAF notice. The Company will submit the LDAF notice for approval at the time of each LDAF filing.

Upon approval by the Department, the Company must immediately distribute these notices to all of its customers either through direct mail or with its bills.

7.18 Residential Assistance Adjustment Clause (RAAC)

7.18.01 Purpose

The purpose of the Residential Assistance Adjustment Clause ("RAAC") is to provide Bay State a mechanism for the recovery of reduced revenues, on an annual basis and subject to the jurisdiction of the Department, based on the incremental increase of Residential Assistance customers enrolled in the Company's low-income discount tariffs (Residential Rate R-2 and Residential Rate R-4), on and after July 1, 2005, as a result of a computer data matching program with the Massachusetts Executive Office of Health and Human Services ("EOHHS"), as described in the Department's D.T.E. 01-106 order, as well as through traditional outreach programs. The RAAC shall be subject to an annual reconciliation/true-up representing the actual reduction of revenues and the actual recovery of revenues through the application of the RAAC. In the event that the Company's total low-income discount in a Prior Year is below the Baseline Revenues, no refund will be due to customers.

7.18.02 Applicability

The RAAC shall be applicable to all firm tariff customers. For billing purposes, the RAAC shall be included in the Local Distribution Adjustment Clause ("LDAC").

7.18.03 Effective Date of Annual Adjustment Factor

The Residential Assistance Adjustment Factor ("RAAF") shall first be effective on November 1, 2005 or any subsequent 1st of a month approved by the Department. All subsequent RAAFs will be subject to an adjustment on the first day of November for each

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

subsequent twelve-month period, pursuant to the RAAF Formula described below, unless otherwise ordered by the Department.

7.18.04 Definitions

The following terms shall be used in this tariff as defined in this section, unless the context requires otherwise.

(1) **Baseline Period** is the twelve-month period ended June 30, 2005.

(2) **Baseline Revenue** shall be calculated as the difference between the delivery rate revenues that would have been collected from customers enrolled on the low-income discount tariffs during the weather normalized twelve-month period ending June 30, 2005, had no low-income discount tariffs existed, and the actual weather normalized delivery rate revenues collected from customers enrolled on the low-income discount tariffs during the Baseline Period.

(3) **Base Rate Discount Revenue** is the difference between the delivery rate revenues that would have been collected from customers enrolled on the low-income discount tariffs during the weather normalized Prior Year, had no low-income discount tariffs existed, and the actual weather normalized delivery rate revenues collected from customers enrolled on the low-income discount tariffs during the Prior Year.

(4) **Forecast Period** is July 1st to June 30th of each subsequent year to the Baseline Period.

(5) **Forecast Recovery Period** is November 1st to October 31st of each subsequent year to the Baseline Period.

(6) **Prior Year** is the twelve-month period ending June 30th immediately preceding the effective date of the new RAAF.

(7) **Recoverable Revenue** is the amount of Base Rate Discount Revenue in excess of the Baseline Revenue. The Recoverable Revenue shall not be less than zero.

7.18.05 Residential Assistance Adjustment Factor Formula

$RAAF_x$ = [($Cust_x$ x DCust\$) + ($Cust_x$ x $Avgthm_x$ x DUse\$) + (RA_{x-1})]/A:TPvol

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

Where:

Avgthm The estimated average weather-normalized therm usage per customer for the Forecast Period determined from most recent historical therm usage under the Company's low-income discount tariffs (Residential Rate R-2 and Residential Rate R-4).

Cust Net increase in number of customers enrolled on the Company's low-income discount tariffs (Residential Rate R-2 and Residential Rate R-4) during the Forecast Period over the number of customers enrolled during the Baseline Period.

DUse$ The difference between the non-discounted and discounted usage charges for the applicable rate schedules.

DCust$ The difference between the non-discounted and discounted customer charge for the applicable rate schedules.

RA_{x-1} Reconciliation Adjustment for $Year_x$ shall be the difference between the actual amount of revenue recovered in $Year_{x-1}$ and the Recoverable Revenue for Year $_{x-1}$. Reconciliations shall be performed annually and interest shall be calculated on the average monthly reconciling balance using the prime rate computed in accordance with 220 C.M.R. § 6.08(2) and added to the reconciling balance.

RAAF The annual Residential Assistance Adjustment Factor.

A:TPvol Estimated total weather-normalized firm therm sales and firm transportation volumes in the Forecast Recovery Period.

$_x$ Forecast Recovery Period.

7.18.06 Information to be Filed with the Department

Information pertaining to the Residential Assistance Adjustment Clause shall be filed with the Department consistent with the filing requirements of all costs and revenue information included in the LDAC. Required filings include the annual RAAF filings made forty-five (45) days prior to the effective dates of the November 1 Peak Period and May 1 for the Off-peak Period, and will include all other factors of the LDAF. The RAAF filing on May 1 shall be the semiannual update to the currently effective RAAF.

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

AMENDMENTS TO UNIFORM SYSTEM OF ACCOUNTS

175.5 Peak Interruptible Transportation Margin Reconciliation Adjustment for LDAC

This account shall be used to record the cumulative difference between peak Interruptible Transportation margin returns and peak Interruptible Transportation margins. Entries to this account shall be determined as outlined in the Local Distribution Adjustment Clause, 220 C.M.R. 7.06.06.

175.6 Off-Peak Interruptible Transportation Margin Reconciliation Adjustment for LDAC

This account shall be used to record the cumulative difference between off-peak Interruptible Transportation margin returns and off-peak Interruptible Transportation margins. Entries to this account shall be determined as outlined in the Local Distribution Adjustment Clause, 220 C.M.R. 7.06.06.

175.7 Customer Choice Expense Reconciliation Adjustment

This account shall be used to record the cumulative difference between the recovery and actual amounts of third party incremental expenses associated with the Company's Customer Choice initiatives and all unbundling costs associated with the Company's participation in the MGUC.

175.8 Exogenous Factors Cost Reconciliation Adjustment

This account shall be used to record the cumulative difference between the recovery or return of annualized cost impacts from changes in exogenous factors and those annualized cost impacts from changes in exogenous factors.

175.9 Earnings Sharing Revenues Reconciliation Adjustment

This account shall be used to record the cumulative difference between the return of revenues associated with earnings shared between shareholders and firm customers and those revenues associated with the shared earnings.

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

175.13 Service Quality Revenue Reduction Reconciliation Adjustment

This account shall be used to record the cumulative difference between the return of revenues associated with penalties for failure to meet certain service quality measure targets and those service quality penalties.

175.15 Transition Cost Reconciliation Adjustment

This account shall be used to record the cumulative difference between the revenues toward transition costs as calculated by multiplying the transition cost factor ("TCF") times monthly firm sales and transportation throughput and transition costs allowed, plus carrying charges calculated on the average monthly balance using the Fleet prime lending rate and then added to the end-of-month balance.

176.15 Transition Cost Working Capital Reconciliation Adjustment

This account shall be used to record the cumulative difference between the revenues toward transition cost working capital allowance and the actual monthly transition working capital allowance costs as calculated from the actual transition costs.

176.5 Demand Side Management Reconciliation Adjustment

This account shall be used to record the cumulative difference between the sum of Category Conservation Expenditures incurred by the Company plus the sum of Category Loan Repayments and the revenues collected from customers pursuant to this clause with respect to a given Rate Category.

176.6 Environmental Response Costs Reconciliation Adjustment

This account shall be used to record the cumulative difference between the revenues toward environmental response costs as calculated by multiplying the RAC times monthly firm sales volumes and transportation throughput and environmental response costs allowable per formula.

176.7 Residential Assistance Reconciliation Adjustment

This account shall be used to record the cumulative difference between the actual RAAC revenues, as calculated by multiplying the RAAF times the actual monthly firm sales and firm transportation volumes and the reduction in revenues allowable per the formula in Section 7.18.05.

BAY STATE GAS COMPANY
ALL DIVISIONS
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

APPENDIX I

MEASURE	TARGET	Maximum Penalty
1) Customer survey[1] responses indicating that Bay State met or exceeded customer expectations.	FY 1998 - 94% FY 1999- 94.5%	$250,000
2) Service appointments met on same day scheduled[2].	FY 1998 - 94% FY 1999- 95%	$250.000
3) Customer complaint cases to DPU per 1000 customers.	FY 1998 and FY 1999; with a 10% no-penalty bandwidth	$250,000
4) Lost time incidents per 100 employees.	BSG's current 3-year average not to exceed previous year's 3-year average	$250,000
5) Respond to odor calls in one hour or less.	FY 1998 - 95% FY 1999 - 95%	$250,000
6) Main and service damage incidents due to third parties.	BSG's current year not to exceed previous year's 3-year average.	$250,000
7) Telephone calls answered in 30 seconds or less.	FY 1998 and 1999: emergency, 95%, service and billing, 80%	$250,000
8) Actual On-Cycle Meter Reads	FY 1998 - 88% FY 1999 - 89%	$250,000

[1] Surveys will be conducted by Bay State or a third party vendor. At least 25% of survey results must be from customers that recently communicated with Bay State concerning a Bay State billing matter. Results will be verified by an independent survey expert who has been mutually agreed upon by the Parties. If the Parties cannot agree on an expert by September 1, 1998, Bay State will petition the Department for approval of an expert.

[2] Complaint cases to DPU will be measured using DPU statistics, adjusted to exclude cases arising from sanitary code violations and cases involving complaints against marketers, if the DPU includes such cases in its statistics.